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SUBJECT: JAMAICA: IMF TEAM SEES GOJ'S CLARITY OF PURPOSE, BUT TIME IS SHORT

REF: A) KINGSTON 422; B) KINGSTON 614

CLASSIFIED BY: Isiah Parnell, CDA; REASON: 1.4(B), (D)

SUMMARY AND ANALYSIS

11. (C) Trevor Alleyne, Division Chief and head of the a six-person International Monetary Fund (IMF) delegation to Jamaica, said the Government of Jamaica (GOJ) appears to have a "clarity of purpose" in regard to current negotiations for a Standby Agreement. Alleyne met with Emboffs on November 5 to discuss the status of two weeks of negotiations that end November 6, and added that the mood has changed since his last visit in June (Reftel A). Alleyne said all options are still on the table and the IMF wants to "think creatively" in regard to its strategy with the GOJ. Alleyne spoke more openly about measures that needed to be taken in Jamaica to address the economic fundamentals and in particular the significant debt challenges facing the country, during a meeting in June with Emboffs; in this meeting he was more tight lipped. It has been an eventful two weeks for the IMF team as: the Governor of the Bank of Jamaica, Derick Latibeaudiere, was dismissed; Hardley Lewin, the well-respected Commissioner of police, resigned; and the Standard and Poor's rating agency downgraded Jamaica to CCC. The GOJ appears to have worked out some of the key obstacles to an IMF deal, but they will need to move quickly to calm a high level of uncertainty in the private sector. Deep and fundamental reform is needed in Jamaica, but it is still not clear if the Jamaica Labor Party (JLP)-led government has the political will to implement such sweeping changes. END SUMMARY.

Progress Continues, But USD 1.2 Billion Figure Not Precise

12. (C) Alleyne said that the negotiations were progressing and he is hopeful that a staff-level agreement may exist by the end of the year. However, a final agreement would not have IMF board approval until early 2010. Despite numerous public assertions by GOJ representatives that the IMF deal would be worth USD 1.2 billion, Alleyne responded in surprise to an exact figure being attached to the deal, adding he was not even sure where this figure had originated.

13. (C) Alleyne explained that Jamaica could conceivably receive a program that is equal to 600 percent of its USD 300 million quota, but that would be the maximum for the life of the program. He also explained that the maximum the IMF could provide in one year is 200 percent of the 300 million quota, thus, a total of USD 600 million. He said the IMF is looking at governance issues including a fiscal responsibility framework, a measure that already has being discussed by the GOJ. Such measures would include provisions to cap the fiscal deficit and the debt-to-GDP ratio. Jamaica continues to use supplemental budgets to increase expenditures beyond those budgeted annually, suggesting a high level of discretionary spending.

Central Bank Governor Dismissal, Issue of Liability Management Program

14. (C) Alleyne asserted that the IMF and the GOJ continue to make progress in their talks and the two sides are narrowing their differences. He explained that most of the divergences are now at the technical level, as both parties appear to be in agreement on the policy direction. He would not elaborate on the status of debt restructuring, an area in which Emboffs were told by Ministry of Finance and Public Service (MFPS) officials on October 28, was a key sticking point in the talks. Alleyne said that any deal would include involvement from the other multilaterals. COMMENT: It might be possible that the IMF will work with other multilaterals to support a debt refinancing deal that would allow Jamaica to avoid default. END COMMENT. It is worth noting that the Emboffs-MFPS meeting was prior to the October 30 dismissal of Latibeaudiere, who was vehemently opposed to any form of debt restructuring. Alleyne said Latibeaudiere's departure did not disrupt negotiations, but he would not elaborate on whether or not the former Governor had been a road block to progress. (NOTE: Emboff contacts at the MFPS have confirmed that Latibeaudiere single-handedly killed prior attempts to implement a liability management program to address the debt problem (Reftel B). In a move to reassure the nation and the markets after the dismissal of Latibeaudiere, Prime Minister (PM) Bruce Golding in a speech to Parliament on November 2 assured the nation that his departure will not disturb current negotiations.

Deep and Fundamental Reform Needed

15. (C) Alleyne raised concerns about the GOJ's granting of government guarantees for major infrastructure projects. He specifically referenced the planned expansion of the PetroJam refinery in Kingston (NOTE: The refinery is 51 percent owned by the GOJ and 49 percent owned by PDVSA the Venezuelan Government-owned oil company) and the proposed liquid natural gas project being advocated by the GOJ. These arrangements would conflict with the IMF's desire to reduce the GOJ's level of contingent liabilities which have a history of being absorbed by the GOJ as new debt. (Reftel B). Alleyne's view was supported in a speech on November 4 by respected business leader and former Minister in the MFPS Don Wehby, who said the GOJ must control public sector expenditures, particularly its loss making parastatals including beleaguered airline Air Jamaica and the former sugar estates. Wehby said the GOJ can no longer afford to keep making minor tweaks to its system, but must embark on deep and fundamental reforms. COMMENT: The GOJ appears unwilling to extract itself from major investment projects, even when there are willing and capable private sector investors -- perhaps to maintain influence in operations and in some instances to extract economic rent. END COMMENT.

COMMENT AND ANALYSIS

¶6. (C) Even if the IMF is willing to entertain novel approaches to assist Jamaica, the Jamaican Labour Party (JLP)-led GOJ must demonstrate a level of leadership and political will to make difficult decisions, which for the past two years seems to have eluded them. The private sector is holding its breath for a sign that the IMF deal will go through. At the same time crime appears unmanageable and investor confidence is falling. Time is of the essence for the JLP, but is not clear if the JLP leadership has the fortitude to embark on the type of deep reform that is needed to give Jamaica the breathing space it needs to move through the current crisis and eventually be able to derive benefits in a future global recovery. End Comment and Analysis.
Parnell